

**ADDITIONAL QUESTIONS AND RESPONSES
JULY 9, 2003 PUBLIC INFORMATION FORUM**

Will Western provide written definitions of its five “decision factors? Risk avoidance based on a sensitivity analysis may be part of “certainty,” but if not, does Western plan to explicitly consider it?

Answer: Western has provided definitions of its five decision factors in the Federal Register Notice announcing the Public Information Forum at page 37486. The five factors were also defined at the July 9 Public Information Forum. Although risk avoidance is not a specific factor, it could be included under the certainty criteria. Another example of risk is the uncertainty of the future regulatory environment. Western seeks input from interested stakeholders on how these criteria are defined and their relative importance. If there is a desire to include risk avoidance in the definition of certainty, comments to that effect should be submitted.

What is meant by “cost effectiveness?” Is it cost effectiveness at the macro (state of California) level as suggested by the ISO representative? At the Western level? Or at the customer level as suggested by several customers?

Cost effectiveness, from Western’s perspective, means that the operational alternative selected provides service to our customers at our system borders in a manner that allows Western to be competitive with other service providers. The Navigant study results show the relative costs and benefits of each operational alternative to deliver federal power to Western’s borders when compared to the Participating Transmission Owner alternative, which essentially integrates Western’s system into the ISO control area. The study shows that when Western’s current contracts expire, some of the customers can avoid certain ISO charges with either the Metered Sub System (MSS) or the control area alternative. It should be noted that the operational alternatives do not drive the cost increases to the customers. The expiration of the current contracts drives these increases. Either the MSS or control area alternative shields some of the customers from some of ISO charges, but those that are exposed to these increases are not exposed by virtue of the operational alternatives. They are exposed to these increases depending upon whether they are “in” or “out” of the MSS or control area.

Does Western agree that it is not prudent to raise costs at the macro level?

In implementing its new marketing plan, Western will incur a significant amount of costs irrespective of which post-2004 operational alternative it selects. Western is interested in adopting an operational alternative, which makes sense for its customers and ensures that Western is able to fulfill its statutory obligations. With the exception of incremental costs associated with either the possible formation of a new control area or creation of an MSS under the California ISO, most of the infrastructure costs associated with the operation of a statewide grid have already been incurred. Owing to the fact that Western

has such a small share of California's market, the incremental cost of implementing either alternative at the macro level is expected to be inconsequential.

Does Western agree that individual customers should save money under the selected alternative?

As described at the Public Information Forum, each alternative affects individual customers differently. Thus, depending on each customer's situation, it is possible for differential financial impacts to accrue under each operational alternative. Accordingly, individual customers will need to determine the required investment in additional infrastructure and personnel associated with the implementation of each alternative to determine the benefits and costs.

On May 14, 2003, WAPA provided cost data as part of the Informal Rates Process. I was trying to compare the Navigant 2005 test year costs to the May 14 WAPA rates data and was having trouble reconciling the figures. Was the Control Area option used in the May 14 rates data?

Navigant comparative benefits study did not model or estimate the repayment obligations associated with the implementation of each operational alternative. It is not appropriate to compare the study with data provided at the May 14, 2003, Rates meeting. The Navigant comparative benefits study used data that was available in early in early 2003. This data is a "snapshot" of the costs that were known at that time. Subsequent to this "snapshot", Western has moved forward in the Rates arena to begin developing rate designs for post-2004 products and services. As the Rate process proceeds, it is probable that the rate design and subsequent charges for each type of service and product could change based upon comments received from interested stakeholders.

Also, can you please provide a year 2005 summary table (Table 1 of the Navigant study) in which the cost components are broken out (in the same manner as the cost components provided at the Rates meeting) so that I can match up the cost data between the rates data and the data from Navigant?

The data from the Rates meeting should not be compared to the Navigant study as described in the answer above.

How will the Control Area infrastructure and start-up costs be allocated between Groups A, B, C, and D, assuming each group becomes part of the Control Area at different times?

Recovery of infrastructure and start-up costs will be determined in the rates process that will begin formally in early 2004.

What escalation factors were used in projecting future ISO charges? What escalation factors were used in projecting future revenue streams such as sales of ancillary services and unused COTP capacity?

A real escalation rate was set at three percent per annum for ISO related charges. The Western expenses for operating expenses and transmission revenue requirements were assumed to be constant in real terms. Western expenses were not escalated since they were assumed to increase at or below the rate of inflation.

Do you plan to do some sensitivity analysis on the PO4 Operational Alternatives to see how sensitive the cost output is to the various ISO charges? Do you plan to do sensitivity analysis using various assumptions on how ISO charges will be administered (in light of the ever changing “market re-design?”)

Western does not plan to do sensitivity analyses at this time. The objective of the Navigant study was to see if any of the alternatives were, from an economic viewpoint, worthy of further consideration. The study is structured to show the relative costs and benefits between each alternative. Consequently, as different assumptions are used, the study would still be flexible enough to continue to show the comparative differences between each alternative. The study shows that the MSS and the control area alternatives were comparable from a cost-benefit standpoint. Western could continue to update the study as the ISO works its way through its Tariff amendments and market redesign, but must make a decision by the end of the year to have all of the necessary equipment and systems in place and tested by January 1, 2005.

In Western’s analysis and evaluation of all the options for 01/01/2005, was the preference customers’ total load and generation considered, or just the portion of the preference customers’ total load that would be served by Western/CVP energy? Was this consistent in each of the options considered?

Western used the estimated total load of the Full Load Service customers and the portion of the load served by Western for all other customers (Variable Resource). This was consistent in each of the options considered.

If the answer to the last question is “just the portion of the preference customers’ total load that would be served by Western/CVP energy,” does Western foresee further savings, in any of the options, if the total load and generation of preference customers were included in the analysis?

As stated previously, the Navigant study was used to determine the relative benefits of each alternative at Western’s borders to see if any alternative was a clear choice. Including the total load and generation of preference customers in any analysis would be a huge undertaking involving all of the customers, would require consensus on business viewpoints of each customer, and would possibly take years to complete. Western cannot anticipate the results of such a study because of its complexity.

If Group A (Project Use Loads only) alone was in a Federal Control Area option, what alternatives/options (ISO wheeling customer, MSS, etc.) were assumed for the remaining Groups (B, C & D) customers that are not in Group A?

In the scenarios, all of Western’s customers not included in the Federal control area were assumed to be wheeling customers or taking wheeling service from the ISO.

Regarding the COTP and the analysis, was just Western’s share of the COTP included, or the entire COTP? Was this COTP treatment the same in each of the options considered/analyzed?

Only Western’s share of the COTP was included in all of the analyses.

Regarding the Control Area Formation analysis, was this based on existing direct connects and non-direct connects? If so, would there greater benefits to the Control Area Formation as more customers become direct connects, (e.g. avoided ISO costs, increased and diverse generation mix, AGC etc.)?

The analysis of the control area option included the existing directly connected loads, and assumed dynamic scheduling of customers not directly connected. The study shows that the larger the control area (more customers included “in” the control area) the greater the benefits.

Q1A. During the presentation, Shawn Matchim of Navigant stated that a scenario analysis wasn’t performed. Instead a list of assumptions was agreed to and that list was used for the study. Please provide that list.

The list of assumptions referred to be Mr. Matchim are the assumptions listed on pages 1 through 3 in the report “Analysis of Central Valley Project Operational Alternatives. A copy of that report is at the following URL: <http://www.wapa.gov/sn/P04/pdf/CVP-OperationalAlternativesReport-06-12-03.pdf>. In addition, other background data can be

found at Western's external website at: <http://www.wapa.gov/sn/P04/OpsAlternatives.asp>
under "Background Data for Navigant Comparative Benefits Study".

Q1B. To the extent that the above list doesn't include all the details of assumptions used regarding Ancillary Service requirements, purchases and sales under each scenario, please provide a detailed description of the assumptions used (e.g. quantities, types and average sales price for each A/S sold for each assumption; methods for determining A/S requirements under each scenario and the amount needed).

The study assumed the following:

Ancillary service requirements are based on historical ancillary service requirements from 1999 through 2002. The percentage obligations were:

Spinning	3.46%
Non-Spinning	3.99%
Replacement	1.38%
Regulation	4.84%

The costs for ancillary services and the value for ancillary services are based on a historical average of the ratio of ancillary service costs to market energy costs. The rates are as follows:

Spinning	18.8%
Non-Spinning	16.9%
Replacement	19.8%
Regulation	45.3%

Ancillary services available from the project was approximately 8,456,923 MWh

	<u>Total Available</u>	<u>Total Surplus</u>
Spinning	1,983,034	1,742,833
Non-Spinning	5,749,255	5,427,260
Replacement	0	0
Regulation	724,634	388,631

The average market price for energy used in the study was \$38/Mw-Hr for 2005 and escalated at 4 percent per annum.

Q1C. If not included in the answer to Q1A: Did you assume a nodal or zonal CAISO market structure?

The analysis was based on the current zonal market structure.

Q1C: Navigant slide 5 shows a table of sources. Please provide the exact assumptions used (e.g. identify the historical period and provide the figures for that period).

The Navigant presentation slide No. 5 from the July 9th Public Information Forum refers to a number of resource assumptions. Slide No. 4 refers to the rates and costs and were based on historical market data. Please refer to the attached spreadsheet titled “Summary of Rate Inputs” for the specific data used on Western’s external website under “Public Information Forum – July 9th”. URL: <http://www.wapa.gov/sn/P04/OpsAlternatives.asp>

Q2. Do you anticipate including the “external” costs impacts of non-direct connect preference power customers in your decision making process? If so, how?

Western has estimated the relative economic effects of the location of a customer, whether the customer is “in” or “out” of the control area or MSS as shown in the Navigant study. If the questioner desires Western to examine other “external” cost impacts, they should so indicate in their public comments.

Q3. If a significant number of preference power customers so desire, will you perform a scenario analysis using a broader, but reasonable set of assumptions?

If requested, Western will assist to the fullest extent possible with its customers to assist in performing a follow-up analysis. As was discussed at the Public Information Forum, because of the pending expiration of existing contracts, Western must be ready to have a fully implemented alternative on line before January 1, 2005.

Q4. Do you think that a “Group D” control area is feasible? If so, what hurdles have to be overcome?

A “Group D” control area is feasible, but with the numbers of metering points of some of the customers and the cost of metering and telecommunications equipment/services, some customers may find it economically infeasible to participate. Each customer will need to independently determine whether their participation in a control area meets their economic objectives. Items that would have to be accomplished include coordination of dynamic scheduling to each of Western’s customers with the ISO, negotiation of control area agreements between Western and each of the participating customers, and analysis of the regulating capability available from the CVP will have to be performed.

Q5. Navigant Slide 10 shows the high level results of the study. Do just the Control Area options include revenue from the new fee for usage of WAPA's share of the PACI? (\$8 million). If yes, why can't that "transmission revenue requirement" be collected under the other options?

The Navigant study did not include any revenue estimates associated with the sale or usage of the PACI. At the July 9, Public Information Forum, Western orally incorrectly stated that revenues from 400 megawatts of rights were assumed in the study.

Q6. During the meeting, there was mention of a parallel pipe issue by the ISO(?). Can you elaborate on the issue, or lack thereof?

We believe that the ISO is referring to the issue of increased coordination of schedules between the Pacific Northwest and northern California if a second control area is formed that includes the PACI line and COTP. Coordination of schedules north of the California-Oregon Border is done among three control areas in the Pacific Northwest, with little, if any, problem. Western is working with the Bonneville Power Administration to set up the appropriate protocols and procedures for scheduling coordination. If the control area alternative is chosen, Western will have to demonstrate that these protocols/procedures are workable during the certification process. Additional operations procedures between Western and the ISO will be necessary to cover schedule reductions under various circumstances such as loop flow, congestion, and outages. If a decision is made to go forward with a control area Western will coordinate with all of its neighboring control areas to minimize any operational impacts.

Q7. During the meeting, a number of people asked what you thought the range of accuracy was on the study results. What is your best guess?

The Navigant study was designed to compare the relative benefits and costs of implementing each alternative. The range of accuracy is contingent on a number of legal, regulatory, and other factors that are very difficult, if not impossible to quantify.

Q8. During the meeting the ISO (?) raised a question about the assumption that WAPA was "always leaning on the system" and buying 3% of its needs from the ISO imbalance market (did I get that correct?). Please clarify the assumption and state how much the results would change if the assumption were reversed (e.g.: selling vs. buying)

The analysis does not assume that Western is always leaning on the system but assumes that on average over a twelve-month period that Western will be subject to imbalance

energy purchases under the various scenarios based on use of the ISO grid. These imbalance energy purchases are assumed to be 3 percent of the load. These additional costs are estimated to be \$1.3 million for the PTO option in 2005 and vary across the different scenarios as shown in Table B-1 of the report.